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SUBJECT: Norway's StatoilHydro Joins Shtokman Gas Project

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[11](#). (U) Norway's StatoilHydro announced October 25th that it will sign an agreement for the remaining 24% stake in the Shtokman Development Company, which is to develop the first phase of the giant Shtokman gas field in the Barents Sea. Gazprom had earlier awarded France's Total a 25% share in the project. ConocoPhillips was the other finalist among international partners considering the deal. Gazprom will retain a controlling 51% share in the venture and has maintained that it will own 100% of the hydrocarbon reserves. This claim has called into question Total's announcement that it will be able to add reserves to its books proportional to its investment in the field.

[12](#). (SBU) ConocoPhillips Russia V.P. Stuart Snow (protect) told us October 25th that the tender was "very clean and transparent," and that "the highest bidders won." He added that Total and StatoilHydro put a lot more, "I repeat, a lot more," value on the opportunity than did ConocoPhillips.

COMMENT

[13](#). (SBU) Many analysts believe Gazprom is overvaluing the field and that its untested business model may create headaches for the international partners. That said, it appears that after 20 years on the drawing board, including ten years of on-again off-again negotiations between Gazprom and potential partners, Shtokman is finally going to be developed. Shtokman's progress is good news for global energy security given the field's potential 3.7 trillion cubic meters of gas. Significant volumes of gas -- up to 23 billion cubic meters per year -- should begin flowing sometime in the middle of the next decade. It is also encouraging to hear that the tender was clean and transparent.